

Heublein Inc 1974 Annual Report



Heublein Inc 1974

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ABOUT THE COVER:

Heublein's new headquarters building in Farmington, Connecticut is striking in appearance and highly functional. It is the nerve center for Heublein's worldwide food and beverage business.



Financial Highlights

Year Ended June 30	1974	1973	Percent Increase
FOR THE YEAR:			
Revenues	\$1,310,810,000	\$1,035,355,000	27%
Income from continuing operations before provision for income taxes and extraordinary charge	113,794,000	96,864,000	17
Provision for income taxes	59,742,000	50,501,000	18
Income from continuing operations	54,052,000	46,363,000	17
Net income	54,052,000	30,411,000	78
Earnings per share:			
Continuing operations	2.57	2.21	16
Hamm's loss	—	(.10)	
Extraordinary charge	—	(.66)	
Net earnings	2.57	1.45	77
Cash dividends declared per common share	.98	.91	8
AT JUNE 30:			
Working capital	209,705,000	124,800,000	
Shareholders' equity	287,443,000	250,470,000	
Shareholders' equity — per common share	13.66	11.94	
Number of common shareholders	26,985	28,537	

Letter To Shareholders

The two signatures at the bottom of this letter are indicative of the broader participation in the top management of our company which has evolved according to plan over the past few years.

More is said of this later, but it is worth noting at the outset — along with the record sales and earnings, the rapid growth of our business in the United States and overseas, and the improved financial position of our company — as one of the major accomplishments of this year of growth.

In retrospect it was a year of complexities and uncertainties resulting from broad and rapid swings in the economy, but we believe our management, at all levels, responded well as our company exceeded its goals.

The results clearly show this.

- Revenues were up 27 per cent from a year ago to \$1,310,810,000.
- Earnings were up 17 per cent to \$54,052,000.
- Earnings per share rose 16 per cent to \$2.57.

Fourth quarter results closely paralleled those for the full year, as revenues increased 24 per cent, earnings 17 per cent, and earnings per share 16 per cent.

The establishment of an Office of the Chairman and a Corporate Management Committee to broaden participation in top management could not have been planned for a more eventful year. As it happened we were able to bring rapid developments in our business into focus before they became problems; we quickened management decisions and we implemented prompt action plans.

For example, we were able to take timely actions assuring us of continued worldwide operations despite severe energy and materials shortages.

With the chairman, president, and three group vice presidents as members, the Office of the Chairman is responsible for policy direction in



Hicks B. Waldron, Jr.

Stuart D. Watson

the company. The Management Committee, which includes these officers and the corporate officers heading the operating companies and corporate staff departments, directs policy implementation and provides for thorough two-way communications in our organization.

As to the year's operations, all three Groups contributed to the record gains.

The Beverage Group increased its sales 19 per cent. In the process its volume grew six times faster than that of the entire U.S. alcoholic beverage industry.

The Food Group also had a 19 per cent increase in revenues as a result of greater volume throughout the KFC system and an improved

performance by the Consumer Products Division.

The International Group sustained its rapid growth rate, more than doubling its sales and revenues.

Heublein continues to prosper from the unique position it has in two basic industries — food and drinks. It derives its revenues and profits about equally from both.

In KFC the uniqueness lies in a meal-service concept and a product that are meeting with increasing popularity around the world. We've stated the growth factors influencing KFC's prime market before, but with the expanding outlook they bear repeating.

There are 21 million households to be formed in the U.S. between 1970 and 1985, over half of them young, headed by people under 35. In the next ten years when the total U.S. population is increasing by 8 per cent the number of young households is expected to rise by 35 per cent. Far more of these families will enjoy higher incomes of \$15,000 or more. More wives will be working, and in better paying jobs, with a consequent shift to more meals prepared outside the home.

Throughout the year KFC worked to increase its share of this growing market. KFC is a long way from realizing its full potential, and new approaches will assure continued expansion of its business.

Overseas the KFC system is growing even faster with the moving forces being the same. Two hundred stores were added this year, a 40 per cent increase, including Japan's 100th and the United Kingdom's 250th. Sales through existing stores continue strong and in Australia and New Zealand, two of the biggest overseas markets, they were up sizably.

Among alcoholic beverage companies Heublein's uniqueness is its strong and increasing lead in light and flavorful drinks. Smirnoff sales lead all vodkas and most other spirits brands in the U.S. But our Beverage Group now has several brands growing at an even faster rate — Black Velvet Canadian Whisky, Jose Cuervo Tequila and The Club Cocktails, for example. Premium imported wines, like Lancers and Harveys Bristol Cream Sherry, are marketed much the same way in this fast-growth category.

Our Beverage Group made a strong entry into the prestigious Scotch market this year when its Arrow Liquors Company was named sole U.S. distributor for Black & White Scotch Whisky. Sales of California wines from our United Vintners subsidiary were up seven per cent, outperforming the industry, and United Vintners increased its market share for the second consecutive year.

New companies, new top-level and middle management positions and

new and expanded facilities came into being during the year to handle this growth.

Arrow Liquors Company became a separate entity to further the sales of several of our major brands and Charles J. Herbert, an experienced Heublein manager, was named its president. John A. Powers, a marketing executive with years of advertising experience, was named chairman of United Vintners.

Major new and expanded production facilities were started with ground breakings for a food plant at Oxnard, California and additions to our spirits plant in Allen Park, Michigan and our wineries in California.

A seven-year \$90 million revolving loan and credit agreement with a group of nine banks, finalized at the close of the year, further strengthens the company's sound financial position.

Expectations of the role and responsibilities that business should have in society are steadily increasing. In 1974 Heublein stepped up its efforts to recruit and train more women and minority group members for responsible positions in our company. The Heublein Foundation increased its giving to further the work of education, health and welfare in the communities where we operate. Our plants were operated with due consideration for environmental protection.

A major social issue of interest to Heublein was aired in a report made to Congress by the U.S. Department of Health, Education and Welfare on alcohol abuse in our nation.

The report's findings confirm an earlier position taken by Heublein calling for a more enlightened public view on alcohol abuse and for further study into the causes of alcoholism, which are mostly rooted in psychological, physiological and sociological troubles.

Part of a wider study on the health of Americans, the report says that most Americans consume alcohol with no adverse effects and, in fact, beneficially in cases where it is consumed moderately. It says that the relatively few who abuse consumption run the risk of alcoholism, which the report defines as a treatable disease.

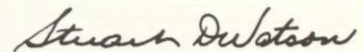
Looking ahead, we see uncertainties that could affect our business — rising unemployment, high interest rates, material and supply shortages, rising costs and more cautious consumer spending — and all these have been considered in our planning for 1975. Notwithstanding, Heublein has never entered a new fiscal year with greater strength for making the most of opportunities. Our products are increasingly popular and we have a stronger organization with the know-how to market them around the world. Our production, technology and management systems have been improved and proven in the crucial year just ended.

We welcomed two valuable new members to our board of directors this year — Edward B. Bates, president of the Connecticut Mutual Life Insurance Company and James F. English, Jr., chairman of the Connecticut Bank and Trust Company.

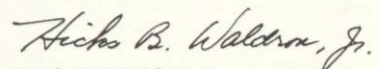
By broadening participation in our management, by putting decision-making with those responsible for the action and by encouraging interest in the social issues of our times, we are training able and responsive future managers at a greater rate than ever before.

In this and all other accomplishments of the year, we had the unstinting support and help of our employees, our directors, the committee members of the board, our shareholders, our agencies and suppliers, and for this we are most grateful.

We embark on this new fiscal year with confidence in our company and its capabilities.



Stuart D. Watson
Chairman



Hicks B. Waldron, Jr.
President



THE BEVERAGE GROUP is the largest of Heublein's three operating groups in terms of sales and revenues, which totaled \$697,018,000 in 1974, compared to \$586,423,000 last year. This was an increase of 19 per cent — a growth rate more than six times greater than that of the U.S. alcoholic beverage industry as a whole.

The Beverage Group contributed significantly to corporate profits, with operating income of \$52,044,000, a 24 per cent increase.

Members of the Beverage Group are the Smirnoff Beverage & Import Company, United Vintners, Inc., the Arrow Liquors Company and the Venture Marketing Company.

The Venture Company is a unique marketing and sales organization that does not produce or import any products of its own. Rather, it provides special support to the other



three companies in areas such as market research, new product introductions, expansion of ethnic markets, and sales to airlines and other national accounts.

Marketing expertise and technical know-how were shared more widely this year than ever before among the Beverage Group companies. This helped to increase marketing efficiencies and to avert delays due to energy or materials shortages. Research and development capabilities were expanded at both the group and division levels.

Smirnoff Vodka and several of the Beverage Group's other leading spirit and wine brands turned in record sales performances this year. In addition, several new products were introduced successfully and contributed to the record sales. With the addition of Black & White, a distinguished name in Scotch whisky, the Beverage Group now has strong entries in virtually all the fastest-growing alcoholic beverage categories.

More detailed information on the operations of the Beverage Group can be found on the following pages.

With a sales increase of 24 per cent, the Smirnoff Beverage and Import Company again substantially increased its share of the alcoholic beverage market.

All major brands showed strong gains as the trend toward greater consumption of light, flavorful beverages continued. Several new products were introduced that showed good potential for the future.

Smirnoff Vodka, the company's flagship brand, increased its share of the vodka market and moved closer to becoming the largest seller of all distilled spirits brands in the U.S.

Predictions are that Smirnoff will be No. 1 before the end of the decade.

Retail sales grew by more than 16 per cent in 1974 sparked by realistic lifestyle advertisements promoting tasty, easy-to-make drinks, such as the Machete, the Bloodhound, the Madras and the Bullfrog. These new drinks blend Smirnoff with different



fruit juices, wines and soft drinks for novelty and variety.

Strong gains also were made by Smirnoff Silver, the 90.4 proof vodka for martini drinkers, and Popov Vodka, whose annual sales are now 1.5 million cases.

Another fast-moving brand is Black Velvet Canadian Whisky. Its sales were up more than 30 per cent for the fifth straight year and now exceed 1.25 million cases yearly.

Beverage Group sales and revenues increased 19 per cent, a growth rate more than six times greater than that of the U.S. alcoholic beverage industry as a whole.

Its full possibilities remain to be developed in many metropolitan markets, where it has been distributed for only a short time.

Tequila is the fastest-growing of all liquors in the U.S. It is now a national drink, and the Smirnoff Beverage and Import Co. markets the nation's leading brand, Jose Cuervo, which had a sales increase of more than 50 per cent. Matador Tequila, a medium priced brand, also moved up substantially in sales this year. Much of the success of Jose Cuervo and Matador is due to the fact that, like vodka, they can be consumed straight or in a variety of cocktails.

Other popular liquor imports include Irish Mist Liqueur, King's Ransom 12-year-old Scotch, and House of Lords 8-year-old Scotch, which grew in popularity among discerning consumers.



One of the year's new products was Tava, a clear, smooth-tasting, 60-proof liqueur that comes in an elegant crystalline bottle. It quickly



attained broad distribution in most major markets and its sales have been most encouraging.

Heublein Wines International, established last year as a new unit within the Smirnoff Beverage and Import Co. emerged in 1974 as a major force in the imported wine business.

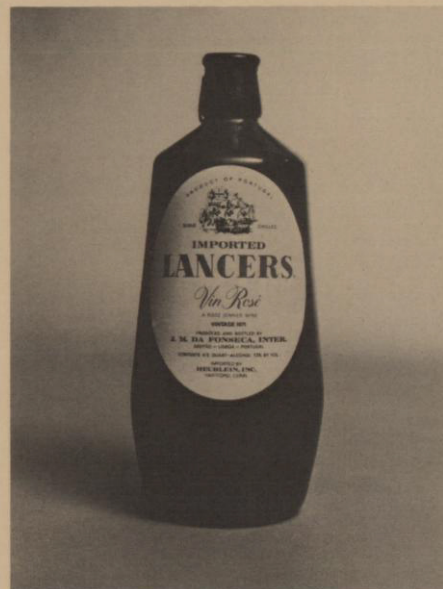
Harveys Bristol Cream secured its standing as the nation's leading imported sherry, increasing sales by 36 per cent. A major factor in this was extensive television and print advertising, which continued to emphasize its appropriateness on special occasions, particularly as a holiday gift. Attractive floor displays were used in coordinated promotions in supermarkets and other retail outlets.

Lancers Rosé and Lancers Vinho Branco white wine, both from Portugal, increased in sales, and were joined by a new full-bodied red wine, called Lancers Rubeo. All three types were widely advertised on television and in consumer and trade magazines. They are now packaged in an attractive three-pack for holiday giving.

Vinya, a lower-priced rosé from Portugal, boosted its sales with youthful, fun-type promotions.

Heublein's imported Italian wines showed encouraging growth this year. The top seller is Gancia Asti Spumante, which shows promise of becoming the leading wine of its type in the U.S.

Heublein Wines International became the exclusive U.S. distributor this year for two prestigious lines of European wines — Cordier, a major exporter of Bordeaux Chateau wines, and Schloss Reinhartshausen German wines from the estate of the Prince of Prussia.



Demand continues to exceed the supply of the premium California wines of Beaulieu Vineyard. Recognition of BV's premium quality was shown once again at Heublein's Premiere National Auction of Rare Wines, where 50 gallons of 1973 Cabernet Sauvignon Private Reserve drew a bid of \$4,000. This was the second highest bid of the entire Auction, exceeded only by the \$9,000 paid for a unique jeroboam of 1864 Chateau Lafite red Bordeaux.

A number of organizational changes and facility improvements were factors in the strong performance by the Smirnoff Beverage and Import Company. For example:

By establishing the Arrow Liquors Company as an independent organization, the Smirnoff Sales Co. was able to give stronger backing to brands such as Smirnoff, Black Velvet and José Cuervo.

Installation of additional automated equipment at the SBIC plants in Hartford, Connecticut, Allen Park, Michigan, and Menlo Park, California, helped to increase their productivity.

A comprehensive new management planning and development program was instituted to help keep pace with the management needs of the expanding business.

At mid year, Arrow Liquors Company became the newest of the Beverage Group's four independent operating divisions. Previously it was



part of the Smirnoff Beverage and Import Company.

The move was made to provide greater marketing and sales support for several high-potential brands, including Black & White Scotch, Arrow Cordials, Heublein Cocktails, The Club Cocktails and Tullamore Dew Irish Whiskey.

Charles J. Herbert, formerly president of the Theodore Hamm Company, was named president of Arrow. A nucleus of the existing Arrow marketing and sales staff was rapidly expanded so that the company could move aggressively into the marketplace.

By year's end, Arrow Liquors showed a 13 per cent increase in case sales, not including those of Black & White Scotch Whisky.

Exclusive U.S. rights to Black & White, acquired in January 1974, gave Heublein a prestigious entry

into the fast-growing Scotch market. Much of Arrow's first efforts were focused on expanding distribution and planning a distinctive new approach to the consumer market.

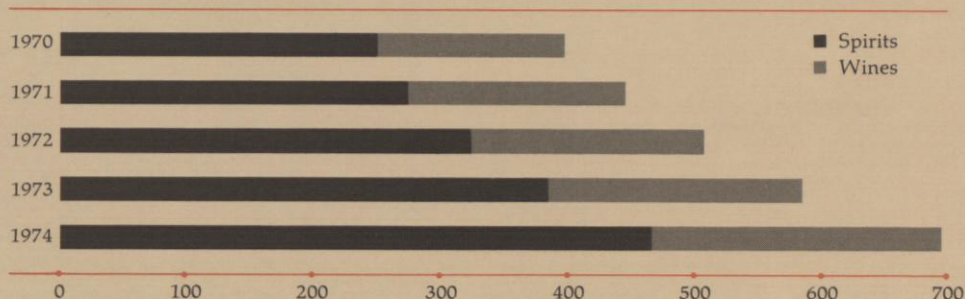
A talking dog advertising campaign was conceived, capitalizing on the famous Black & White terriers, one of the best-known symbols in the liquor industry. The dogs, who engage in whimsical banter, appeared in magazines, newspapers, billboards and other media in the latter part of the year.

The goal of the heavy advertising campaign is to increase awareness of Black & White at the trade and consumer levels.

Arrow Liquors also markets two premium-priced 12-year-old Scotch whiskies — Buchanan's and Strathconon — both made by the producers of Black & White, James Buchanan & Co.



Beverage Group Revenues (IN MILLIONS OF DOLLARS)





These three brands, plus McMaster's Scotch, give Arrow Liquors one of the industry's most complete lines of Scotch whiskies. Heublein Bottled Cocktails also had good gains for the year. From the time Heublein marketed the first bottled cocktails in 1892, it has always been the leader in this category. Sales increased 6 per cent this year on the strength of the popular Brass Monkey drink, the first of Heublein's unique proprietary cocktails. Another, introduced this year, is the Sergeant Major, a mixture of gin and special flavorings that has proved to be a popular refresher. The broad line of Arrow Cordials and flavored brandies had a 7 per cent increase in sales, nearly 50 per cent more than the growth rate for all domestic cordials.

The Arrow Coffee Sombrero was the first of the milk-based cordial drinks that are gaining fast in popularity. Arrow moved to extend its early lead in this category by trademarking a new line of drinks called "Sombrarrows."

The Club Cocktails, which come in cans for greater convenience and easy chilling, introduced two new drinks, the Club Wallbanger and the Club Tequila Sunrise. They led the line to a sales increase of 48 per cent. Sales of these moderate-proof drinks approach a million cases a year.

The Club Wallbanger first sparked new interest in other Club drinks early in the year, and now the Tequila Sunrise promises to repeat that performance.

Relska, the popularly-priced vodka brand sold by Arrow Liquors Company, had a sales increase of 9 per cent and now is the country's eighth largest selling vodka brand.

One of the Arrow imports, Tullamore Dew Irish Whiskey, was reformulated and bottled in a distinctive new container this year, with a resultant 22 per cent increase in its sales. Tullamore Dew is unusual among Irish Whiskies because of its light taste, which has proved popular with Americans.

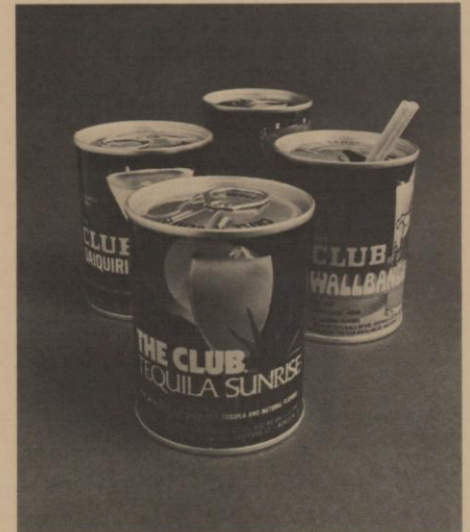
United Vintners, Inc., Heublein's California wine subsidiary, had the

highest sales in its history this year, winning a larger share of the U.S. market for California wines for the second consecutive year.

These results reflect United Vintners' emphasis on quality and market research and its continued investment in advertising and sales promotion — all designed to build the strong, well-known brands needed in today's highly competitive market. Nevertheless, high grape costs and inflated costs of other materials and equipment continued to depress the division's operating results.

United Vintners' Inglenook Wines helped in its strong showing in the marketplace. The brand grew at a rate greater than all U.S. premium wines, which is the best-performing category in the industry.

Two new varietal wines added to Inglenook's popular Navalle line — Ruby Cabernet and French Colombard — met with immediate approval. Initial sales were more than triple United Vintners' projections.



The impressive sales growth of Heublein's mixed cocktails, Arrow Cordials and wines reflects today's broadening consumer tastes.



Annie Green Springs increased its sales more than 50 per cent, to a total of more than 3 million cases, and is now a leader in the highly competitive refreshment wine market. "Annie" was introduced successfully this year in New York and other major metropolitan markets. At year's end Plum Hollow was added to the Annie Green Springs family of Peach Creek, Country Cherry and Berry Frost flavors.

Another new refreshment wine called T. J. Swann, now being introduced, promises to solidify United Vintners' position in this category.

One of United Vintners' most important programs this year was the development and introduction of a

full new line of popularly-priced table wines under the Italian Swiss Colony label. Called Colony Wines, they are designed to reinforce Italian Swiss Colony's franchise in the large-volume standard table wine market, which was relatively flat throughout the industry last year.

The eight Colony wines — Chablis, Rhine, Sauterne, Rhineskeller Moselle, Grenache Rose, Burgundy, Chianti and Zinfandel — have been introduced by extensive television advertising with the theme "The Wine America Is Coming Home to."

These wines, frequently consumed with meals, are available in four-fifth quarts and classic decanter-style half-gallon bottles. The back label, unique in this price range, provides useful information on the taste, storage and service of the wine. It also allows United Vintners to move immediately to the new computerized Universal Product Coding system being adopted by many supermarkets, which gives United Vintners a lead on its competition.



FOOD GROUP revenues increased 19 per cent this year to a record \$457,940,000. Operating income, amounting to \$54,059,000, a 2.6 per cent gain, was affected by the all-time peak in poultry costs at KFC Corporation.

In addition to KFC, which has its headquarters in Louisville, Kentucky, the Food Group includes the Consumer Products Division, based in Hartford, Connecticut.

Kentucky Fried Chicken continued to grow in consumer popularity. A.1. Steak Sauce, Ortega Chiles and Sauces, and the other specialty foods made and marketed by the Consumer Products Division were also up substantially in sales. The acquisition of Zapata Foods, Inc., which was finalized shortly after the close of the fiscal year, broadened the Food Group's position in the fast-growing market for Mexican-style foods.

Several steps were taken this year in preparation for further expansion and diversification of the Food Group's operations. They included appointment of Group directors of strategic planning, research and development, and venture activities; the start of construction on a major food processing plant in Oxnard, California, and establishment of a new unit called the Retail Venture Company, to explore other opportunities in retail food marketing. The Venture Company has been assigned responsibility for managing the 11 Mexican-style restaurants operated by Zapata Foods.

Kentucky Fried Chicken Corporation officially became KFC Corporation in 1974, reflecting the name by which the company is popularly known to most employees, investors and franchisees.

Revenues of KFC Corporation again attained record heights with an increase of 20 per cent. The growth was achieved in the face of the energy crisis, sporadic raw materials shortages, rising costs and nationwide economic uncertainties.

The domestic KFC system added 274 new stores and now totals 3,799 retail outlets, including 2,920 franchised outlets and 879 company-owned. Another 200 or more new stores are expected to open in the current fiscal year.

The KFC system is expected to grow for the foreseeable future. Substantial potential for expansion exists both in small communities and in the heart of the nation's largest cities.



The opening of a KFC store on Manhattan's Times Square this year symbolizes the new emphasis on downtown operations. Volume of the Times Square store has exceeded all expectations. Its sales are the highest of any KFC store in the U.S. New downtown stores are being planned for Chicago, Atlanta, Los Angeles and other major cities.

At the same time, the penetration of markets under 10,000 population continues. Excellent results are being achieved by many KFC stores in markets of this size.

Along with adding new stores, the company intensified its program for enlarging some older stores and relocating others to better sites. Oftentimes sales volume can be boosted significantly by relocating a short distance to a site that offers higher visibility, easier access, or more parking.

KFC's new and remodeled stores are improving labor efficiency and providing more seating than most present outlets. Their kitchens also are larger, to accommodate the introduction of new menu items such as Extra-Crispy Chicken, which became a standard item in 1974. Now available in more than 90 per cent of all KFC stores, Extra-Crispy is generating incremental sales increases of 10 to 15 per cent.

Extra-Crispy evolved from KFC's expanded new product development program, which now is test marketing additional entrees, side orders and desserts for future introduction.

Proposed new products are thoroughly tested in company-owned stores before being offered to franchisees. The goal is to develop profitable, quality products that complement the present menu and that can be sold throughout the entire KFC system.

Many other services to franchisees were introduced or expanded this year. They include marketing assistance, help in long-range planning, counseling on site selection and the economics of building new stores, and programs that put increased emphasis on cleanliness, service, quality control, and product consistency.

These services helped to maintain the good working relationship that exists between KFC Corporation and its franchisees. Record numbers of franchisees attended this year's KFC National Convention and a dozen regional seminars, which dealt with improved administration and operations techniques. The regional seminar program is being expanded to 16 sites in 1975.

The company sharply increased its emphasis on employee training, more than doubling its training and development expenditures. Forty-three training stores have been established where future store managers go through a six-week course. Fifteen new training programs were produced by the company during the year for use with company franchise store employees.

KFC Corporation had record revenues with a gain of 20 per cent, while the Consumer Products Division's specialty foods had a gain approaching that level.

Attendance increased 40 per cent at the schools run for franchisees, and the number of field training classes increased by nearly 50 per cent. In addition, special programs were developed for training sales hostesses, and classes are held around the country for some 600 sales hostesses every month.

At year's end, franchisees and the company jointly authorized a 50 per cent increase in the national advertising budget in the new fiscal year. This move should provide a major boost for sales.

A stepped-up program of "value" advertising helped KFC to combat the depressive effects of the energy shortage in those parts of the country where it hit hardest. These ads stressed that in an era of high prices, Kentucky Fried Chicken is one of the consumer's best buys.

To most people, Kentucky Fried Chicken means one thing: a conveniently located store where they can buy economical, flavorful, quality snacks and meals. But there are many other facets of KFC Corporation that help to explain its growth. Here are a few:

- KFC Corporation is a poultry producer and marketer. Its four processing plants in Alabama employ 1,500 persons and account for more than 200 million pounds of chicken a year. One-quarter of that production meets KFC's rigid size and quality standards and goes to KFC stores; the remainder is sold to outside customers. The company-owned poultry operations provide a partial hedge against fluctuations in poultry prices.



- KFC Corporation is a manufacturer and supplier of equipment used in KFC stores. KFC Manufacturing Company, a subsidiary, produces the patented KFC Automatic Cooker used in most domestic KFC stores. It also tests and authorizes equipment made by others for use in the stores.

- KFC Corporation is a major supplier to franchisees. A subsidiary, Mid-Continent Carton Corporation, manufactures 130 million cartons annually. The company also purchases paper goods, supplies and equipment in massive quantities and provides them to the stores through a new network of 12 regional warehouses. New regional KFC commissaries also prepare 131 million pounds

of salads annually for use by the company-owned stores, and many franchised stores.

KFC Corporation's record results in the volatile consumer market of 1974 show that the company is ready to capitalize on the opportunities provided by the increasing numbers of younger, more affluent families, who are the most frequent users of convenience foods.

The Consumer Products Division grew 15 per cent in sales this year with gains made by A.1. Steak Sauce and its other leading specialty foods.

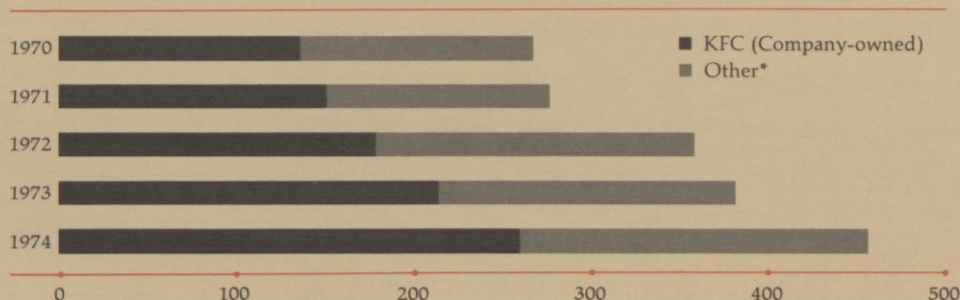
Contributing to this growth was a continuing program aimed at sharply defining the key elements of consumer appeal for all its products, and emphasizing them in advertising and promotion.

Sales of A.1. Steak Sauce continued to increase this year despite more intense competition and a slight decline in meat consumption because of high prices.

The brand was strongly backed by frequent television advertisements featuring Andy Griffith as spokesman. Expanded newspaper coupon advertising for A.1. and the use of conveniently located merchandising racks in supermarket meat departments were part of the coordinated promotion program.

Steak Supreme, introduced last year, achieved broad national distribution, and became a significant competitor in the market for milder, mellower meat sauces.

Food Group Revenues (IN MILLIONS OF DOLLARS)



* Includes specialty food products, franchise fees and other fast-food related operations, no one class of which exceeds 10% of consolidated revenues.

Snap-E-Tom, the unique spicy tomato cocktail, was the fastest growing product this year, with a 20 per cent gain in sales. The increase was due primarily to effective TV advertising and the successful introduction of a 32-ounce size in selected major markets.

Distribution of Snap-E-Tom is still concentrated in the Western and Southwestern states, but is being expanded into other areas as the supply permits. Snap-E-Tom is consumed "straight" and as a mixer with vodka and other spirits.



With the growing popularity of Mexican-style foods, the Division continued to sell all the Ortega-brand chiles and sauces it could produce. For the first time, its partner in Mexico produced a significant chile crop, helping to counteract a crop failure at the Arizona farms, a main source of supply.

Two major steps were taken this year to strengthen the Division's foothold in the Mexican food business. One was Heublein's acquisition

of Zapata Foods, Inc., which was finalized shortly after the close of the fiscal year, and the other was the start of construction on a major new food processing plant in Oxnard, California.

Zapata Kitchens — the unit of Zapata Foods that produces Mexican-style food products for supermarket distribution — will operate as a unit of the Consumer Products Division. Zapata Kitchens' products are currently sold through grocery outlets in 31 states.

The new plant in Oxnard will have 450,000 square feet of floor space and will provide more than twice the capacity of the existing plant for Ortega products, A.1. Steak Sauce, Grey Poupon Mustard and other food items. Completion is scheduled for 1975.

Grey Poupon, the premium Dijon-style mustard, increased sales by 17 per cent this year, as a result of an effective magazine advertising campaign directed to upper-income consumers.

Magazine advertising also was the primary communication vehicle for Regina Wine Vinegar, which attained a 12 per cent sales increase and continued to be the nation's leading brand of wine vinegar.

Market testing was started this year on "Wine & Dine," a packaged, add-the-meat convenience dinner that contains a bottle of wine seasoned especially for the recipe. "Wine & Dine" takes advantage of Heublein's expertise in wines and flavorings.

Hart's Bakeries, Inc., acquired two years ago and operated since as a subsidiary of KFC Corporation, became a unit of the Consumer Products Division. Hart's Bakeries in Atlanta, Dallas and Columbus produce more than 600 million rolls and buttermilk biscuits a year, most of which are used to supply the KFC

system throughout the nation. The Consumer Products Division will seek to expand sales of Hart's products in other markets.

The Division has already begun to make its product packaging compatible with the new Universal Product Code system. This summer's pack of Ortega products are the first Heublein brands whose labels carry a special printed code that can be read and calculated by a computer as the cans pass through the checkout counter.

The system will give store operators an instant accounting of stock levels and product volume. Now installed in only a few selected stores, the UPC is expected to become standard in most supermarkets within a few years. In advance of this, all CPD packages will be adapted to meet the system's requirements.

The Consumer Products Division has always concentrated on premium quality specialty food products in good growth categories. These products are particularly suitable today, when consumers are looking for ways to add taste and variety to economical meals.



THE INTERNATIONAL GROUP, headquartered in Farmington, Connecticut, conducts all Heublein operations outside the United States. The fastest-growing of Heublein's three operating groups, it more than doubled its revenues and operating income.

The Group derives its revenues from sales by company-owned Kentucky Fried Chicken stores, from exports, from international beverage marketing operations, and from royalties received from KFC franchisees and Smirnoff licensees.

This is a significant change from just a few years ago, when Smirnoff licensing agreements were virtually the sole source of overseas revenues.

Heublein's operations abroad are concentrated in those countries and regions enjoying the highest rates of economic growth. In these markets, as in the United States, Heublein's food and beverage products suit the lifestyle of increasing numbers of more affluent consumers with more leisure time.

More detailed information follows on the operations of the International Group.

Heublein's International Group made rapid advances this year in every major part of its business — in the growth of its revenues and operating income, in additions to its product line and the widening of their distribution, and in the expansion of its managerial capabilities.

The Group's sales and revenues totaled \$155,852,000, more than double the \$64,620,000 the prior year. Operating income was up 118 per cent, from \$7,268,000 to \$15,846,000.

The principal sales gains came from expanded operations in Brazil, where the Drury-Fasano Group, that nation's leading liquor company, completed its first full year

as a part of Heublein. Heublein's position in Brazil's rapidly expanding alcoholic beverages market was further strengthened this year by the acquisition of a major interest in Dreher, S.A., the country's leading producer of brandy.

The other major factor in the Group's record growth was the performance of Kentucky Fried Chicken and Smirnoff, both of which brands are gaining in popularity throughout the world today.

Smirnoff Vodka sales abroad increased more than 30 per cent this year. Growth of the brand was particularly strong in Canada, the United Kingdom, Ireland and Mexico. The vodka boom continues in these and many other countries, and Smirnoff is the leading brand by a healthy margin. Holland, France, Belgium, Iran and South Africa also were important growth markets for Smirnoff.

Plans for further advancing Smirnoff sales in European markets were made at a spring conference in Spain for all of Smirnoff's European agents and licensees. The conference emphasized new approaches to advertising, merchandising, quality control, packaging and the other elements of a unified Smirnoff marketing program.



Revenues and operating income of the International Group doubled those of the previous year, with the principal gains coming from expanded operations in Brazil.

In Brazil, the Drury-Fasano Group assumed responsibility for the production and marketing of Smirnoff, which previously was handled by a licensee. Drury-Fasano is now aggressively promoting Smirnoff in order to establish a larger category for vodka in Brazil.

The Drury and Fasano companies, which had operated as independent units in the past, were merged this year to provide a stronger sales force and a single administrative staff and financial department. This achieved

greater operating efficiencies and a more coordinated marketing effort throughout Brazil for our broad line of spirits and wines.

The growth of Kentucky Fried Chicken in other world markets continued unabated despite the energy shortage that hit many countries. The number of KFC stores abroad increased from 501 to more than 700.

Milestones were reached in Japan, which opened its 100th store, and the United Kingdom, its 250th. Both these countries had severe fuel shortages, but because most KFC stores are centrally located and accessible on foot, business continued strong.

Again this year, Kentucky Fried Chicken sales reached all-time highs in Australia and New Zealand, where there was no energy shortage. Australia, already the biggest international market for Kentucky Fried Chicken, saw an increase of more than 20 per cent in per store sales.

Heublein International moved to expedite Kentucky Fried Chicken's growth in the Caribbean and Central America by acquiring KFC-Barbados, formerly a franchised operation. This is the first company-owned operation in the Caribbean region which also contains 38 franchised stores. An advertising co-op was established to service all KFC stores in the Caribbean.

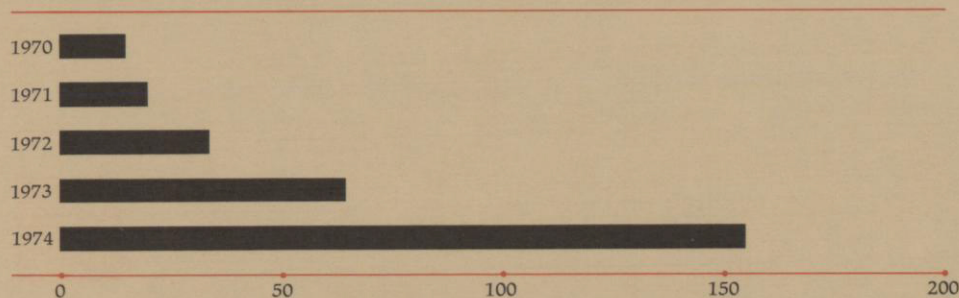
Smirnoff and Kentucky Fried Chicken were not the only growth products for Heublein International this year. Sales of Lancers Rosé almost doubled and other fine Portuguese wines marketed abroad

through a joint venture with J. M. daFonseca, the producers of Lancers, also increased substantially. Heublein Cocktails, cordials and other Heublein beverages were also among the gainers overseas. California refreshment wines were successfully introduced in Puerto Rico, the Bahamas and other selected markets abroad.

To handle its rapid growth, Heublein International realigned its overseas organization on a regional basis, providing more direct local management of its major world markets. The International headquarters staff in Farmington, which provides support services to the regional offices, was strengthened by the addition of new marketing, legal, development and technical specialists.



International Group Revenues (IN MILLIONS OF DOLLARS)



Consolidated Statement of Income

	Year ended June 30,	
	1974	1973
Revenues:		
Net sales	\$1,283,002,000	\$1,013,115,000
Franchise fees and other	27,808,000	22,240,000
	<u>1,310,810,000</u>	<u>1,035,355,000</u>
Costs and expenses:		
Cost of sales	923,147,000	719,429,000
Selling, advertising, administrative and general expenses	265,714,000	213,946,000
	<u>1,188,861,000</u>	<u>933,375,000</u>
Operating income	121,949,000	101,980,000
Other income (deductions):		
Interest expense:		
Long-term debt	(6,074,000)	(6,061,000)
Other	(3,702,000)	(296,000)
Interest income	1,384,000	1,683,000
Miscellaneous — net	237,000	(442,000)
	<u>(8,155,000)</u>	<u>(5,116,000)</u>
Income from continuing operations before provision for income taxes and extraordinary charge	113,794,000	96,864,000
Provision for income taxes:		
Federal	47,297,000	41,993,000
State	7,376,000	6,830,000
Foreign	5,069,000	1,678,000
	<u>59,742,000</u>	<u>50,501,000</u>
Income from continuing operations	54,052,000	46,363,000
Hamm's operating loss, less tax effect	—	(2,152,000)
Income before extraordinary charge	54,052,000	44,211,000
Extraordinary charge, less tax effect	—	(13,800,000)
Net income	\$ 54,052,000	\$ 30,411,000
Earnings per share:*		
Continuing operations	<u>\$2.57</u>	<u>\$2.21</u>
Hamm's loss	—	(.10)
Before extraordinary charge	2.57	2.11
Extraordinary charge	—	(.66)
Net earnings	<u>\$2.57</u>	<u>\$1.45</u>

*Earnings per share from continuing operations assuming full dilution were \$2.49 and \$2.16 in 1974 and 1973, respectively. Net earnings per share assuming full dilution were \$2.49 and \$1.45 in 1974 and 1973, respectively, and \$2.06 before extraordinary charge in 1973.

See accompanying notes and summary of accounting policies.

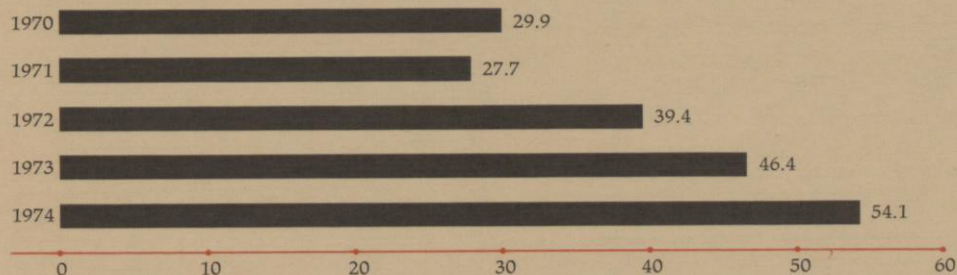
Consolidated Balance Sheet

June 30,

	1974	1973
ASSETS		
Current assets:		
Cash	\$ 23,007,000	\$ 23,428,000
Marketable securities at cost, which approximates market	6,687,000	3,877,000
Accounts and notes receivable	166,105,000	113,914,000
Inventories:		
Finished products	52,101,000	38,148,000
Products in process	10,691,000	8,507,000
Bulk whiskey and wine	87,185,000	61,825,000
Raw materials	27,849,000	17,001,000
Total inventories	177,826,000	125,481,000
Prepaid expenses	7,946,000	6,683,000
Total current assets	381,571,000	273,383,000
Investment in and advances to affiliated companies	5,184,000	4,978,000
Property, plant and equipment, at cost:		
Land	32,485,000	28,495,000
Buildings	71,412,000	62,690,000
Machinery and equipment	126,656,000	96,792,000
Leasehold improvements	37,421,000	29,894,000
Wine tanker	6,974,000	6,974,000
	274,948,000	224,845,000
Less accumulated depreciation	86,820,000	75,987,000
	188,128,000	148,858,000
Other assets:		
Properties and other assets not used in continuing operations — net	15,424,000	25,070,000
Cost in excess of net assets of purchased businesses	56,090,000	50,231,000
Trademarks, contracts and franchises	3,209,000	2,823,000
Deferred income taxes	6,547,000	14,765,000
Other	18,104,000	12,274,000
	99,374,000	105,163,000
	<u>\$674,257,000</u>	<u>\$532,382,000</u>

See accompanying notes and summary of accounting policies.

Income-Continuing Operations (IN MILLIONS OF DOLLARS)



	June 30,	
	1974	1973
LIABILITIES		
Current liabilities:		
Notes payable	\$ 12,532,000	\$ 23,734,000
Current portion of long-term debt	4,360,000	7,827,000
Accounts payable	44,708,000	32,736,000
Accrued expenses	35,930,000	33,927,000
Taxes:		
Federal, state and foreign taxes on income	21,801,000	13,360,000
Deferred income taxes	5,218,000	—
Excise taxes	32,115,000	20,747,000
Other	8,422,000	7,668,000
Cash dividends payable	5,245,000	4,597,000
Current portion of reserve for discontinued operations	1,535,000	3,987,000
Total current liabilities	<u>171,866,000</u>	<u>148,583,000</u>
Long-term debt, due after one year	195,161,000	111,054,000
Reserve for discontinued operations	16,280,000	19,687,000
Other long-term liabilities and deferred income	3,447,000	2,588,000
SHAREHOLDERS' EQUITY		
Preferred stock	6,534,000	9,592,000
Common stock	10,497,000	10,397,000
Additional paid-in capital	139,716,000	132,890,000
Retained earnings	131,146,000	97,591,000
	<u>287,893,000</u>	<u>250,470,000</u>
Less treasury stock	390,000	—
Total shareholders' equity	<u>287,503,000</u>	<u>250,470,000</u>
	<u>\$674,257,000</u>	<u>\$532,382,000</u>

See accompanying notes and summary of accounting policies.

Consolidated Statement of Additional Paid-In Capital

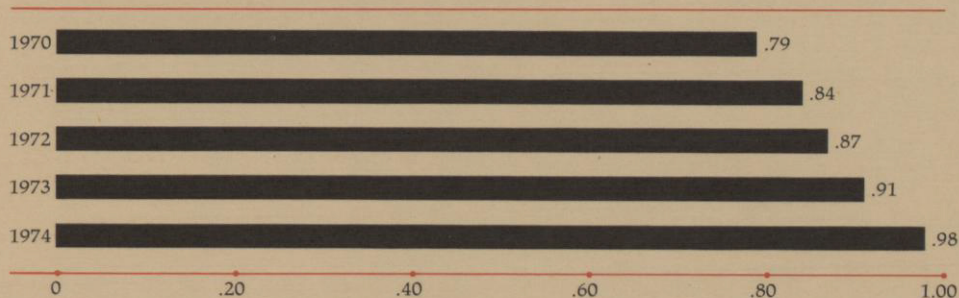
	Year ended June 30,	
	1974	1973
Balance at beginning of year as previously reported	\$132,890,000	\$117,789,000
Adjustments relating to pooled companies	—	2,075,000
Excess of option price over stated value of common stock issued on exercise of options	5,168,000	5,951,000
Proceeds in excess of par or stated value of common stock of pooled companies sold prior to merger	253,000	55,000
Excess of stated value of preferred stock over stated value of common stock exchanged	799,000	664,000
Tax benefit from disqualifying dispositions of shares issued under stock option plans	652,000	735,000
Excess of market over stated value of shares issued for purchase of subsidiary ..	—	5,609,000
Other	(46,000)	12,000
Balance at end of year	<u>\$139,716,000</u>	<u>\$132,890,000</u>

Consolidated Statement of Retained Earnings

	Year ended June 30,	
	1974	1973
Balance at beginning of year as previously reported	\$ 97,591,000	\$ 80,251,000
Retained earnings of companies acquired in pooling of interests transactions including (\$601,000) adjustment due to different fiscal years	—	5,207,000
Net income	54,052,000	30,411,000
Cash dividends declared:		
Common stock — \$.98 per share (\$.91 in 1973)	(20,497,000)	(18,095,000)
Dividends of pooled companies prior to acquisition	—	(183,000)
Balance at end of year	<u>\$131,146,000</u>	<u>\$ 97,591,000</u>

See accompanying notes and summary of accounting policies.

Dividends Declared—Common Share (IN DOLLARS)



Consolidated Statement of Changes in Financial Position

Year ended June 30,

1974

1973

SOURCES OF WORKING CAPITAL

Operations:

Income before extraordinary charge	\$ 54,052,000	\$ 44,211,000
Charges not requiring funds:		
Depreciation and amortization	15,854,000	15,132,000
Deferred income taxes	15,128,000	4,471,000
Funds provided from operations before extraordinary charge	85,034,000	63,814,000
Extraordinary charge	—	13,800,000
Less charge not requiring funds	—	13,800,000
Funds provided from operations — net	85,034,000	63,814,000
Proceeds from sale of treasury stock	2,973,000	—
Proceeds from exercise of stock options	5,239,000	6,034,000
Proceeds from sale of stock by pooled companies prior to acquisition	253,000	71,000
Book value of assets sold, including properties not used in continuing operations	15,202,000	1,585,000
Increase in long-term debt	87,522,000	6,915,000
Market value of common stock used in purchase acquisitions	1,215,000	5,659,000
Increase in common stock and additional paid-in capital resulting from conversions of preferred stock	811,000	674,000
Tax benefit from disqualifying dispositions of shares issued under stock option plans	652,000	735,000
Issuance of Series A preferred stock in settlement of contingent tax liability ..	—	86,000
Other — net	512,000	(573,000)
	<u>199,413,000</u>	<u>85,000,000</u>

USES OF WORKING CAPITAL

Cash dividends	20,497,000	18,095,000
Purchase of preferred stock and partial redemptions of series preferred stock	2,215,000	2,819,000
Repayment of long-term debt	3,415,000	11,556,000
Additions to property, plant and equipment	58,767,000	38,954,000
Reduction of long-term portion of reserve for discontinued operations	3,407,000	3,481,000
Conversions of preferred stock	843,000	714,000
Investment in and advances to affiliated companies	206,000	1,514,000
Increase in other assets	5,830,000	—
Additions to cost in excess of net assets of purchased businesses, trademarks, contracts and franchises	7,811,000	30,597,000
Purchase of treasury stock	4,607,000	—
Reclassification of deferred income taxes	6,910,000	—
	<u>114,508,000</u>	<u>107,730,000</u>
Increase (decrease) in working capital	<u>\$ 84,905,000</u>	<u>\$ (22,730,000)</u>

CHANGES IN WORKING CAPITAL

Cash and marketable securities	\$ 2,389,000	\$ (11,567,000)
Accounts and notes receivable	52,191,000	10,340,000
Inventories	52,345,000	15,313,000
Prepaid expenses	1,263,000	2,827,000
Notes payable and current portion of long-term debt	14,669,000	(25,486,000)
Accounts payable, accrued expenses and taxes	(39,756,000)	(15,809,000)
Cash dividends payable	(648,000)	(358,000)
Current portion of reserve for discontinued operations	2,452,000	2,010,000
Increase (decrease) in working capital	<u>\$ 84,905,000</u>	<u>\$ (22,730,000)</u>

See accompanying notes and summary of accounting policies.

Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's investments in affiliated companies (not majority owned) are carried at its equity in their net assets and the Company's operating results include its share of their net income.

Translation of Foreign Currencies

Current assets and liabilities of foreign subsidiaries, except inventories of beverage distilling subsidiaries, are translated into United States dollars at year-end exchange rates; inventories of beverage distilling subsidiaries, non-current assets and liabilities are translated at rates in effect at the time of the transaction. Revenues and costs and expenses are translated at average rates prevailing during the year, except for depreciation and amortization and cost of sales of beverage distilling subsidiaries which are translated at historical rates.

Translation gains and losses are reflected in earnings.

Inventories

All inventories are stated at the lower of cost or market, cost being determined by the first-in, first-out method, except costs of whiskey in bond which have been determined by specific lots.

Whiskey and wine in storage for ageing over a number of years is included in current assets in accordance with the general practice in the industry.

Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and amortization. Expenditures which extend the useful lives of assets are capitalized while maintenance and repairs are charged to income as incurred. Depreciation and amortization are generally computed by the straight-line method over the estimated useful lives of the respective assets. On sale or retirement, the asset cost and related reserve are removed from the accounts and any related gain or loss is reflected in income.

Cost in Excess of Net Assets of Purchased Businesses, Trademarks, Contracts and Franchises

Cost in excess of net assets of purchased businesses aggregating \$17,014,000 arising from transactions prior to November 1, 1970 is not being amortized as, in the opinion of management, there has been no diminution in value. The balance is being amortized over periods ranging from 20 to 40 years.

Trademarks, contracts and franchises are carried at cost less amortization which is being provided principally on a straight-line basis over periods ranging from 5 to 30 years.

Franchise and Licensee Fees

Initial franchise fees are recorded as income on the date the store is opened by the franchisee. Monthly fees from franchise and license agreements are accrued as earned based on sales of franchisees and licensees.

Taxes

Deferred income taxes are provided to reflect the tax effects of reporting certain transactions at different times for financial and tax purposes. The principal items giving rise to deferred income taxes are provisions for losses on disposition of

discontinued operations, accelerated depreciation and utilization of cash basis of accounting for tax and accrual basis of accounting for financial reporting for certain subsidiaries.

The investment tax credit is deducted from the current provision for federal income taxes.

United States and Canadian excise taxes, which are payable upon withdrawal of whiskey and spirits from bond, constitute a lien on in-bond inventories. Inasmuch as these taxes are not payable until withdrawal of the whiskey and spirits from bond or after twenty years, whichever is earlier, no provision for such taxes has been made with respect to such inventories.

Pension Costs

Pension costs charged to current earnings include charges for current service and amortization of prior years' service costs over 30 years. The Company's policy is to fund the amounts accrued.

Earnings Per Share

Earnings per common and common equivalent share are based upon (1) the Company's average number of shares of common stock outstanding during the year, (2) shares issued in poolings of interests, (3) the number of common shares issuable on the exercise of dilutive stock options (after reduction for common shares assumed to have been purchased with the proceeds) and upon conversion of the Series B preferred shares and (4) additional shares that would be issued under contingent payout provisions for certain acquired companies. Earnings per common share assuming full dilution were determined on the further assumptions that all remaining outstanding dilutive convertible securities had been converted and that certain additional dilutive stock options had been exercised after reduction for common shares assumed to have been purchased with the proceeds.

Notes to Consolidated Financial Statements

Acquisitions

On August 28, 1973, the Company acquired Davis Food Service, Inc. (Davis) in exchange for 797,000 shares of common stock. As this acquisition has been accounted for as a pooling of interests, the consolidated financial statements have been restated to include Davis' operations. Revenues and net income for 1973 have been adjusted to reflect the pooling of Davis as follows:

	Revenues	Net income
As originally reported	\$1,004,646,000	\$28,579,000
Pooling of Davis	30,709,000	1,832,000
As restated	<u>\$1,035,355,000</u>	<u>\$30,411,000</u>

In September, 1973 the Company completed its purchase of a 70% interest in Dreher, S.A. Brazil (Dreher) at a cost of \$9,125,000, which resulted in an increase in cost in excess of net assets of purchased businesses of \$5,845,000. The consolidated financial statements for the year ended June 30, 1974 include the operations of Dreher, which are not material, from the effective date of its acquisition, July 1, 1973.

On July 17, 1974 the Company acquired Zapata Foods, Inc. in exchange for 85,530 shares of common stock and on July 23, 1974, the Company entered into a definitive agreement to acquire Regal Foods, Inc. in exchange for 42,790 shares of common stock. These transactions, which will not have a material effect on the Company's consolidated financial statements, will be accounted for as poolings of interests.

In fiscal 1973, the Company acquired three groups of companies in exchange for an aggregate of 386,142 shares of common stock. These acquisitions have been accounted for as poolings of interests. Accordingly, the consolidated financial statements have been restated to include the operations of these companies.

In October 1972, two groups of companies were purchased in exchange for an aggregate of 99,000 shares of common stock (market value \$5,659,000). In April 1973, the purchase of two additional groups of companies, as of January 1, 1973, for approximately \$31,500,000 in cash was completed. The combined net assets of the groups acquired at the dates of acquisition amounted to approximately \$13,300,000. Their results of operations, which were not material, have

been included since the respective dates of purchase. The results of their operations prior to their acquisitions would not have had a material effect on the Company's historical results. In addition, the Company purchased the minority interest in a foreign subsidiary for approximately \$5,610,000. These acquisitions resulted in an increase in cost in excess of net assets of purchased businesses of approximately \$29,200,000.

Foreign Subsidiaries

The accompanying consolidated financial statements include the accounts of the Company's foreign subsidiaries as follows:

	1974	1973
Total assets	\$119,350,000	\$75,859,000
Net tangible assets	29,909,000	19,220,000
Revenues	145,267,000	56,056,000
Net income	8,322,000	510,000

Translation gains and losses, which are reflected in earnings, are not material.

Discontinued Operations

Prior to the Company's acquisition of Kentucky Fried Chicken Corporation (KFC), KFC's management decided to discontinue operating its owned roast beef and domestic fish and chips outlets and three motor hotels. In this connection, provisions for estimated losses of \$45,500,000 (\$21,750,000 net of tax) were made in prior years. Subsequent operating losses and disposal costs charged against the related reserve aggregate \$27,685,000, including \$5,859,000 and \$5,491,000 in fiscal 1974 and 1973, respectively. Management believes that the remaining reserve will be adequate to complete the discontinuance of their operations.

During fiscal 1974, management completed the sale of the assets and business of the Company's beer operations. The terms of the sale agreements were consistent with the terms anticipated when a provision of \$26,600,000 (\$13,800,000 net of tax) was made in fiscal 1973 for estimated disposal costs and losses, including estimated operating losses to the date of disposition. A summary of the reserve as of June 30, 1974 follows:

	Reserve		
	Provision	Charges	Balance
Assets and business	\$23,600,000	\$23,529,000	\$ 71,000
Operating losses	3,000,000	2,930,000	70,000
	<u>\$26,600,000</u>	<u>\$26,459,000</u>	<u>\$141,000</u>

The balance of the reserve will be credited to operations in fiscal 1975. The 1973 beer operating results have been segregated from continuing operations and are reflected separately as "Hamm's operating loss, less tax effect."

Amounts under "Properties and other assets not used in continuing operations — net" represent assets relating to the Company-owned KFC fish and beef stores in both 1974 and 1973 and includes the net assets of the beer operations in 1973.

Inventories

Inventories used in the computation of cost of sales in fiscal 1974 and 1973 were: July 1, 1972 — \$101,804,000; June 30, 1973 — \$125,481,000; and June 30, 1974 — \$177,826,000.

Taxes

Included in the provision for federal income taxes are deferred tax charges (credits) as follows:

	1974	1973
Tax benefit of losses from discontinued operations provided for in prior periods	\$14,606,000	—
Deferred taxes resulting from differences between cash basis accounting for tax and accrual basis for financial statements for certain subsidiaries ...	(1,692,000)	\$3,120,000
Excess of tax over book depreciation	1,614,000	1,161,000
Other items	(1,092,000)	190,000
Provision for deferred income taxes	<u>\$13,436,000</u>	<u>\$4,471,000</u>

The difference between the Company's effective tax rates and the federal statutory rate (48%) is due principally to state and foreign income taxes.

Provision for foreign income taxes is made where applicable. No provision for federal income taxes has been made on the undistributed earnings of foreign subsidiaries with the exception of 50% of the consolidated earnings of the Company's Brazilian subsidiaries where it is management's intention to repatriate 50% of such earnings. Substantially all other earnings of foreign subsidiaries are intended to be reinvested abroad. At June 30, 1974 the undistributed earnings of foreign subsidiaries for which federal income taxes have not been provided aggregate \$6,832,000.

Net sales include excise taxes of \$343,110,000 and \$280,189,000 in 1974 and 1973, respectively.

Short-Term Borrowings and Long-Term Debt

Short-term borrowings at June 30, 1974 represent borrowings by foreign subsidiaries, principally in Brazil, at a 12.9% weighted average interest rate. Average short-term borrowings during fiscal 1974 were \$27,736,000 at a weighted average interest rate of 10.3%. Borrowings reached a maximum month-end balance of \$76,642,000 at December 31, 1973 due to semi-annual inventory related payments. During fiscal 1974 the Company had available from several domestic banks, informal unsecured lines of credit aggregating \$40,000,000 with interest at the prime rate. On June 27, 1974 the Company terminated the short-term credit lines and entered into a revolving credit agreement described below.

Long-term debt due after one year follows:

	June 30,	
	1974	1973
4½% convertible subordinated debentures, due May 15, 1997	\$100,000,000	\$100,000,000
Revolving credit loans	81,000,000	—
Mortgage notes payable in various installments	5,351,000	6,355,000
Other	8,810,000	4,699,000
	<u>\$195,161,000</u>	<u>\$111,054,000</u>

The 4½% subordinated debentures are convertible into common stock at approximately \$69.50 per share (1,438,800 shares) and are subject to redemption through annual sinking fund payments beginning in 1983 of not less than 6% nor more than 12% of the principal amount of debentures outstanding in 1982.

Under the terms of the revolving credit agreement, the Company may borrow up to \$90,000,000 through July 15, 1977. On July 15, 1977 or at the Company's option prior to that date, amounts borrowed under the agreement will be converted into term notes payable in sixteen equal quarterly installments commencing October 15, 1977. Borrowings under the agreement bear interest at prime rate to July 15, 1976; then prime rate plus ¼ of 1% to July 15, 1977; and then prime rate plus ½ of 1% to July 15, 1981. There is a fee of ½ of 1% for any unused portion of the commitment.

In connection with the informal credit lines and as well as the revolving credit agreement the Company was or is expected to maintain average bank balances approximating 10% of the credit line when not in use and an additional 10% when in use. Such balances are not legally restricted as to utilization or withdrawal and are generally met with normal operating balances.

Mortgage notes payable are collateralized by deeds of trust, leasehold improvements, buildings, equipment, a wine tanker and other assets with a net carrying amount of approximately \$9,685,000 at June 30, 1974.

Under the most restrictive covenants of long-term borrowing agreements, the Company may not pay dividends in excess of 75% of consolidated income earned subsequent to June 30, 1974 plus \$20,000,000. Also, the Company must maintain net working capital of at least \$120,000,000 and a current ratio of 1.5 to 1.

Aggregate maturities of long-term debt for the next five fiscal years are as follows: 1975 — \$4,360,000, 1976 — \$4,419,000, 1977 — \$3,356,000, 1978 — \$21,750,000, and 1979 — \$20,985,000.

Capital Stock

There are 5,000,000 authorized shares of series preferred stock. Changes in preferred stock during 1973 and 1974 are summarized below:

	Series A convertible non-dividend stated value \$10 per share		Series B convertible non-dividend stated value \$10 per share	
	Shares	Amount	Shares	Amount
Balance at July 1, 1972	1,696,281	\$10,149,000	289,010	\$2,890,000
Conversions to common stock	(847)	(7,000)	(70,682)	(707,000)
Redemptions			(1,324)	(13,000)
Shares issued in final distribution under terms of holdback agreement	8,549	85,000		
Partial redemptions		(2,805,000)		
Balance at June 30, 1973	1,703,983	7,422,000	217,004	2,170,000
Conversions to common stock	(1,095)	(11,000)	(83,205)	(832,000)
Redemptions			(1,560)	(16,000)
Partial redemptions		(2,199,000)		
Balance at June 30, 1974	1,702,888	\$ 5,212,000	132,239	\$1,322,000

Each Series A preferred share is convertible into .10 share of common stock and is also partially redeemable at the option of the holder at the rate of 1/6 per year after November 1, 1969. No reduction in the number of shares outstanding is affected by these partial redemptions which totaled \$11,817,000 through June 30, 1974. Series B preferred stock is convertible into .2974 share of common stock and is also redeemable in sub series at the rate of 1/5 per year after November 1, 1970 of which \$79,000 has been redeemed through June 30, 1974. The Company has the option to redeem both classes in whole or in part for \$10 per share beginning November 1, 1976, less any amounts theretofore paid in partial redemption.

Authorized capital stock also includes 500,000 shares of 5% preferred stock, par value \$100 per share and 200,500 shares of 5% convertible preferred stock, par value \$100 per share, none of which were outstanding during 1973 and 1974.

There are 30,000,000 authorized shares of common stock with a stated value of \$.50 per share. The changes in the outstanding shares during 1974 and 1973 are summarized as follows:

	Common shares			
	1974		1973	
	Out- standing	In treasury	Out- standing	In treasury
Shares at beginning of year	19,997,877	—	19,322,392	—
Purchase of shares including shares issued under restricted stock op- tion plan		89,150		5,400
Shares issued upon exercise of stock options	140,199		166,275	
Conversions of preferred stock ..	24,163		20,406	
Shares donated to Heublein Foundation				(5,400)
Shares issued for acquisitions ...	796,960	(19,957)	485,108	
Shares issued on contingent payout provision of acquisition agreement	33,958		3,696	
Sale of treasury shares		(60,043)		
Shares at end of year	20,993,157	9,150	19,997,877	—

At June 30, 1974 and 1973, shares of common stock were reserved as follows:

	1974	1973
Conversion of outstanding:		
4½% convertible subordinated debentures	1,438,800	1,438,800
Series A convertible preferred stock	52,123	74,221
Series B convertible preferred stock	39,328	64,537
Stock options	840,771	977,816
Contingent payout provisions of acquisition agreements	2,323	72,889
	<u>2,373,345</u>	<u>2,628,263</u>

Stock Options

Options outstanding were granted under the Company's Qualified Stock Option Plan, adopted in 1964, and the 1971 Stock Option Plan. In addition, a relatively small number of options granted to employees of acquired companies were assumed by the Company in substitution for options outstanding at time of acquisition.

The Qualified Stock Option Plan provides for the granting of options for the purchase of 1,000,000 shares at an option price of not less than the fair market value of the Company's common stock on the date of grant. The terms of the options may not exceed five years. The 1971 Stock Option Plan provides for the granting of options, both qualified and non-qualified, for the purchase of 500,000 shares of common stock at an option price of not less than the fair market value of the Company's common stock at the date of grant. The terms of the qualified and non-qualified options may not exceed five years and ten years, respectively.

All option prices under both plans are equivalent to 100% of the market price at date of grant.

Changes in options outstanding during the years ended June 30, 1974 and 1973 were as follows:

	1974	1973
Outstanding options at July 1	666,955	697,475
Granted, including substitute options	244,062	186,000
Exercised	(140,199)	(166,275)
Cancelled	(63,283)	(50,245)
Outstanding options at June 30	<u>707,535</u>	<u>666,955</u>

Options exercisable at June 30, 1974 and 1973 aggregate 200,906 and 189,651, respectively.

Price information regarding shares which became exercisable, were exercised or were outstanding at each year end is as follows:

	Number of shares	Option price		Market price*	
		Per share	Aggregate	Per share	Aggregate
1974:					
Exercised . . .	140,199	\$8.37 to \$53.44	\$5,240,000	\$40.88 to \$61.00	\$7,279,000
Exercisable . .	158,339	6.64 to 64.81	7,307,000	40.50 to 60.25	7,324,000
Outstanding					
at June 30	707,535	7.93 to 89.15	34,926,000	43.38	30,689,000
1973:					
Exercised . . .	166,275	28.07 to 45.05	6,036,000	38.69 to 65.06	9,550,000
Exercisable . .	176,459	27.13 to 89.15	7,434,000	38.94 to 63.00	10,288,000
Outstanding					
at June 30	666,955	27.13 to 100.00	31,694,000	41.50	27,679,000

* At dates exercised, becoming exercisable and June 30, respectively.

At June 30, 1974 and 1973 there were 133,236 and 310,861 shares, respectively, available for future grant. No charges have been made to income in connection with options granted to date.

Retirement and Profit-Sharing Plans

The Company has non-contributory retirement plans which cover substantially all full-time domestic employees except certain employees covered by various union pension plans. Under collective bargaining agreements, the Company makes contributions to various pension plans for certain union employees. Pension expenses under all these plans amounted to \$4,485,000 in 1974 and \$3,493,000 in 1973.

Under the Company's profit-sharing plan for salaried employees, the Company's basic contribution is at least equal to 5% of the participants' salaries plus a supplemental contribution based upon earnings with the total contribution limited to 8% of total salaries. Contributions to the plan amounted to \$2,626,000 in 1974 and \$2,716,000 in 1973.

Leases and Commitments

Rent expense charged to operations is as follows:

	1974	1973
Noncapitalized financing leases	\$ 13,875,000	\$ 11,625,000
Other leases	9,183,000	5,032,000
	<u>\$ 23,058,000</u>	<u>\$ 16,657,000</u>

Aggregate minimum annual rental commitments (excluding payments for real estate taxes, maintenance and insurance where applicable) under noncancelable leases at June 30, 1974 are:

Fiscal year ending June 30,	Total	Noncapitalized financing leases
1975	\$ 16,082,000	\$ 13,169,000
1976	13,716,000	11,062,000
1977	11,961,000	9,829,000
1978	11,107,000	9,101,000
1979	9,578,000	7,842,000
1980-1984	37,629,000	31,448,000
1985-1989	21,508,000	17,852,000
1990-1994	10,256,000	8,352,000
Thereafter	20,431,000	20,007,000
	<u>\$152,268,000</u>	<u>\$128,662,000</u>

Total aggregate minimum noncancelable lease amounts by major plant and equipment category as of June 30, 1974 follows:

Land and land improvements	\$ 47,611,000
Buildings	93,690,000
Machinery and equipment	7,463,000
Transportation equipment	3,504,000
	<u>\$152,268,000</u>

The present values of the minimum rental commitments for non-capitalized financing leases are summarized below:

	June 30,	
	1974	1973
Land and land improvements	\$ 24,300,000	\$ 26,255,000
Buildings	29,654,000	28,305,000
Machinery and equipment	5,909,000	7,746,000
Transportation equipment	2,252,000	1,452,000
	<u>\$ 62,115,000</u>	<u>\$ 63,758,000</u>

Interest rates implicit in the terms of leases at the time of entering into such leases and used to discount minimum rental commitments for leases range from 5% to 14%. The weighted average interest rate was 10.5% and 10.4% at June 30, 1974 and June 30, 1973, respectively.

If the Company had capitalized its noncapitalized financing leases and the resultant assets were amortized on a straight-line basis and interest accrued on the outstanding lease liability, the effect on net income in each of the two years ended June 30, 1974 would have been less than 3% of average net earnings for the three most recent fiscal years.

Litigation

The Company is a defendant in various litigation matters in which aggregate alleged damages are substantial. Based upon the advice of Counsel, management believes that the Company has adequate defenses and no material liability will result from such litigation.

On December 7, 1972 the Federal Trade Commission filed a complaint alleging a violation of Section 7 of the Clayton Act in connection with Heublein's 1969 acquisition of a controlling interest in United Vintners, Inc. The complaint seeks to require divestiture of Heublein's interest in United Vintners, Inc. and to prohibit for 10 years the acquisition of other companies producing or selling domestic wine. Management, with the advice of Counsel, believes that the acquisition does not violate any Federal statute. Management intends to assert a vigorous defense to the Federal Trade Commission allegations and believes that the outcome of the litigation will not have a material adverse effect on Heublein's financial condition.

Supplementary Income Statement Information

	Charged to continuing operations (In thousands of dollars)	
	1974	1973
Maintenance and repairs	\$ 13,219	\$ 9,393
Depreciation and amortization	\$ 15,854	\$ 11,845
Taxes, other than income taxes:		
Federal, state and foreign excise taxes	\$344,866	\$281,114
Payroll taxes	8,967	6,184
Real estate, personal property and other taxes	9,524	5,746
	<u>\$363,357</u>	<u>\$293,044</u>
Research and development	\$ 6,387	\$ 5,401
Advertising	<u>\$105,543</u>	<u>\$ 82,989</u>

See "Leases and Commitments" for information on rental expense.

ARTHUR YOUNG & COMPANY

277 PARK AVENUE
NEW YORK, N. Y. 10017

Board of Directors and Shareholders
Heublein, Inc.

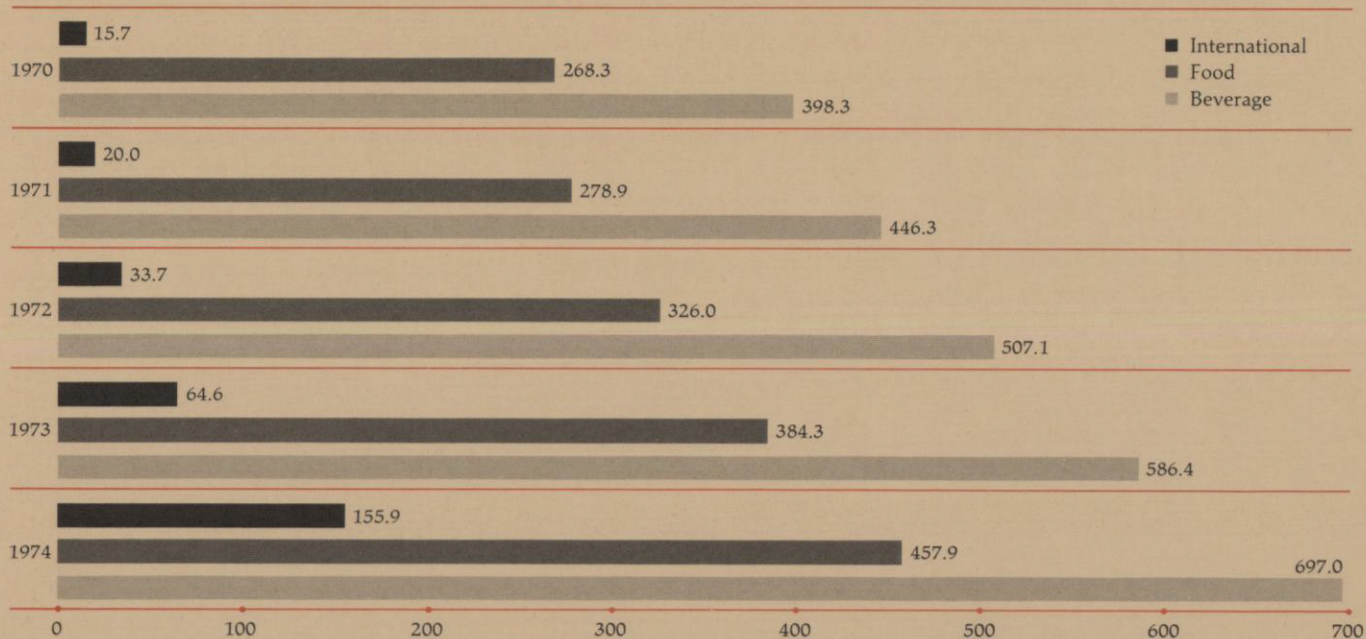
We have examined the accompanying consolidated balance sheet of Heublein, Inc. at June 30, 1974 and 1973 and the related consolidated statements of income, additional paid-in capital, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Heublein, Inc. at June 30, 1974 and 1973 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

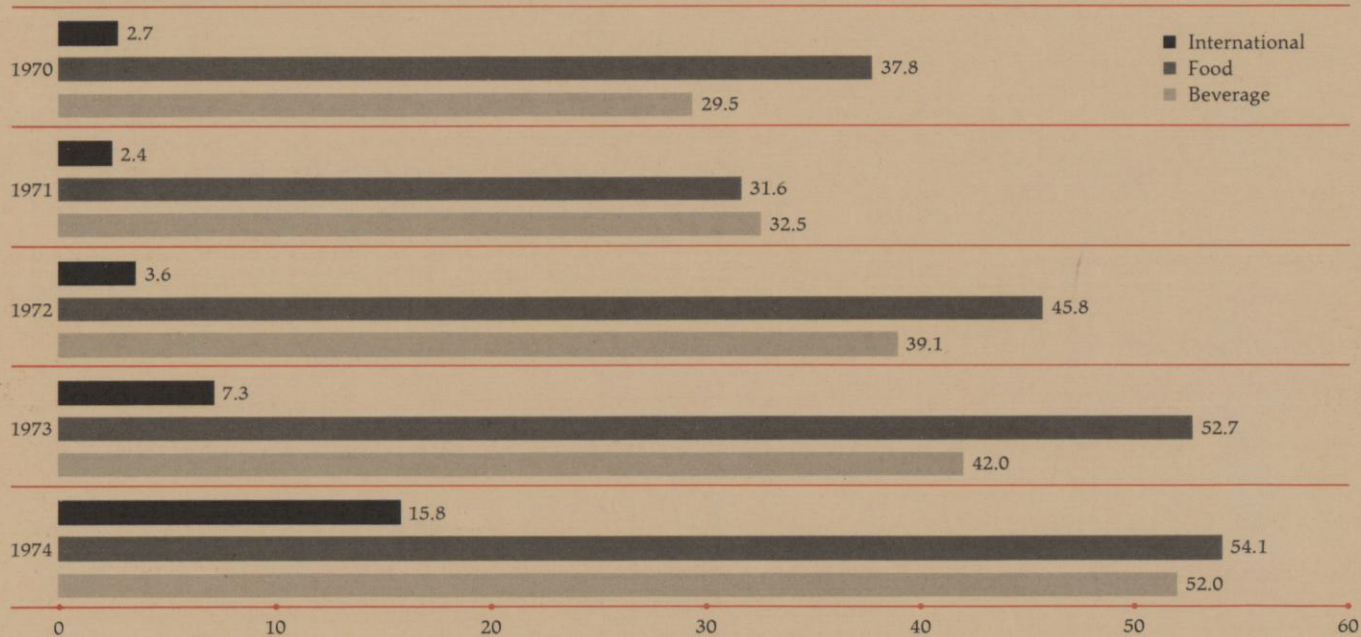
Arthur Young & Company

New York, N.Y.
July 23, 1974

Five-Year Revenues By Group (IN MILLIONS OF DOLLARS)



Operating Income by Group (IN MILLIONS OF DOLLARS)

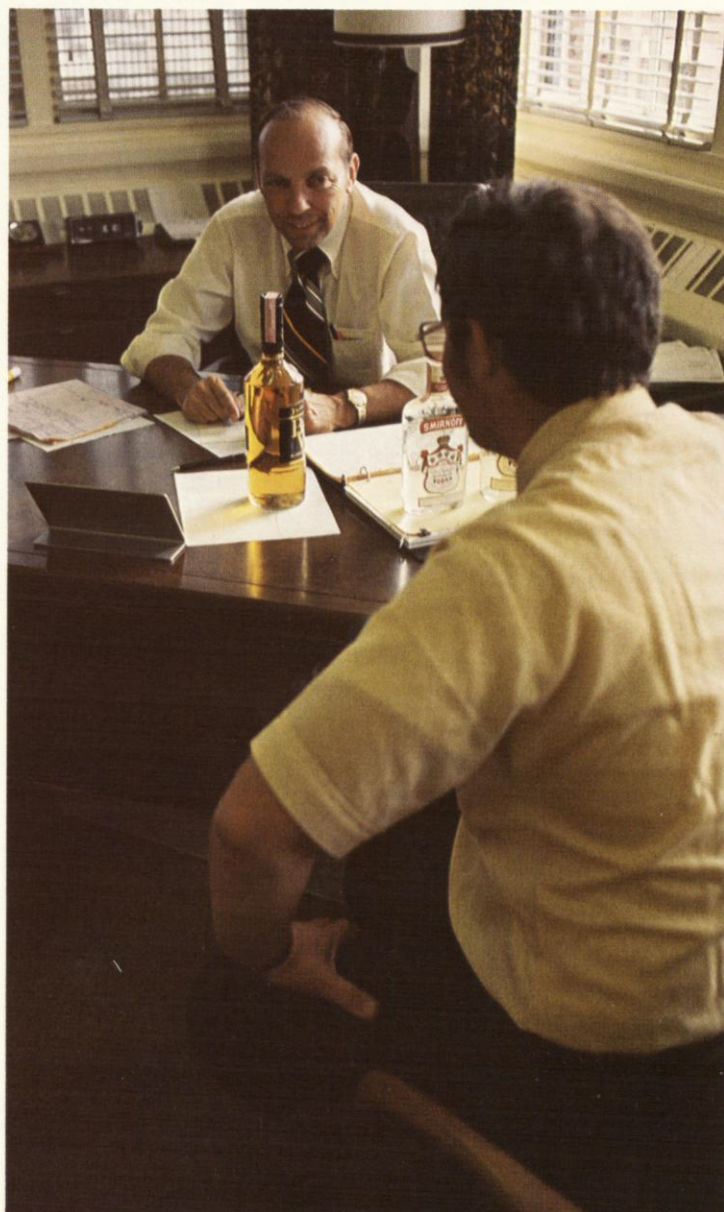




The Office of the Chairman, Heublein's principal management group, is responsible for the company's policy direction. Its members, at right, are Board Chairman Stuart D. Watson, President Hicks B. Waldron, Jr. (backs to camera) and, from right, Group Vice Presidents Paul R. Dohl, Barry M. Rowles and Christopher W. Carriuolo.

The Corporate Management Committee directs Heublein's policy implementation. The Committee includes members of the Office of the Chairman, plus the officers heading the corporate staff departments and the operating companies. Left to right in photo are John J. Moran, vice president—financial resources; George J. Caspar, vice president, secretary and general counsel; Joseph M. McGarry, vice president—communications and public affairs; Gene R. Ehnen, vice president and controller, and Richard C. Farr, vice president—human resources. Messrs. Watson and Waldron are at right.





Young middle managers are typical of the Heublein organization. At left, Peter A. Papadopoulos (center), group brand manager in the Smirnoff Beverage and Import Company, discusses marketing plans with associates Thomas P. Mayer (left) and Adam Briggs. Above, Robert L. Earlenbaugh, manager of the Smirnoff Beverage and Import Company plant in Hartford, confers with Raymond J. Hopkins, operations manager.



Helping to meet America's growing demand for Heublein Products are the Smirnoff Beverage and Import Company plant in Hartford (top), a KFC Corporation chicken farm in Alabama, and the KFC commissary in Dallas, Texas.



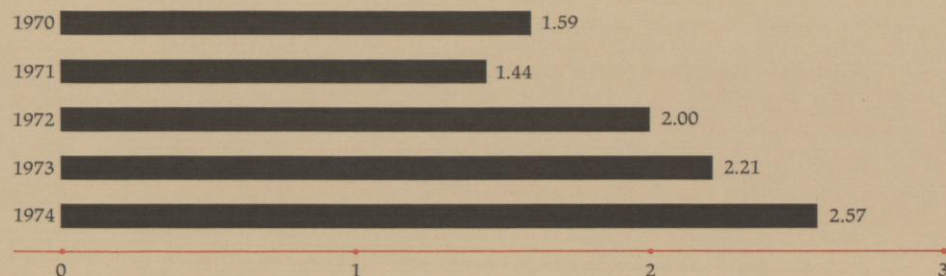
Five Years of Growth

Dollars in thousands except per shares statistics

	1974	1973	1972	1971	1970
Revenues*	\$1,310,810	\$1,035,355	\$ 866,803	\$ 745,196	\$ 682,305
Income from continuing operations	54,052	46,363	39,440	27,669	29,912
Net income	54,052	30,411	22,442	22,318	31,925
Income as a percent of revenues*	4.12%	4.48%	4.45%	3.71%	4.38%
Group contributions to revenues*					
Beverage group	53%	57%	58%	60%	59%
Food group	35%	37%	38%	37%	39%
International group	12%	6%	4%	3%	2%
Group contributions to operating income*					
Beverage group	43%	41%	44%	49%	42%
Food group	44%	52%	52%	47%	54%
International group	13%	7%	4%	4%	4%
Common dividends declared	20,497	18,095	15,921	9,554	8,586
Earnings retained in the business*	33,555	28,268	23,226	17,037	19,949
Taxes of all kinds*	423,099	343,545	292,344	249,793	237,304
Capital expenditures	58,767	38,954	30,325	45,086	68,239
Depreciation*	14,288	12,103	10,627	10,802	10,267
Average common shares outstanding	21,040,005	20,969,991	19,593,677	18,484,991	17,999,285
Per share:					
Income from continuing operations	2.57	2.21	2.00	1.44	1.59
Net earnings	2.57	1.45	1.13	1.15	1.70
Common dividends declared98	.91	.87	.84	.79
Income taxes*	2.84	2.41	2.16	1.63	1.88
Net fixed assets	188,128	148,858	149,052	153,564	155,880
Working capital	209,705	124,800	147,530	77,035	83,172
Current asset ratio	2.2 to 1	1.8 to 1	2.4 to 1	1.6 to 1	1.7 to 1
Return on shareholders' equity*	20.1%	19.3%	19.4%	16.3%	19.4%
Worldwide employment	18,123	18,300	17,452	16,794	15,693
Common shareholders	26,985	28,537	30,044	33,426	29,626

*Based on continuing operations

Earnings Per Share-Primary-Continuing Operations (IN DOLLARS)



Directors

Edward B. Bates
Christopher W. Carriuolo
James F. English, Jr.
Peter M. Fraser*
Edward H. Hamm
Leon W. Harman
Ralph A. Hart*†
John G. Martin*
Arthur A. Milligan†
William H. Mortensen
Frances Heublein O'Dell
Barry M. Rowles
Lester E. Shippee*
Robert L. Trescher*†
Hicks B. Waldron, Jr.*
Stuart D. Watson*
William T. Young

*Members of Executive Committee
†Members of Audit Committee

Corporate Officers

Stuart D. Watson
Chairman & Chief Executive Officer
Hicks B. Waldron, Jr.
President & Chief Operating Officer
Christopher W. Carriuolo
Group Vice President
Beverage Group
Paul R. Dohl
Group Vice President
International Group
Barry M. Rowles
Group Vice President
Food Group
George J. Caspar
Vice President,
Secretary and General Counsel
Gene R. Ehnert
Vice President and Controller
Richard C. Farr
Vice President — Human Resources
J. Richard Grieb
Vice President
President
Smirnoff Beverage & Import Co.
Charles J. Herbert
Vice President
President
Arrow Liquors Company
Joseph M. McGarry
Vice President
Communications & Public Affairs
Michael A. Miles
Vice President
General Manager
Consumer Products Division
John J. Moran
Vice President — Financial Resources
John A. Powers
Vice President
Chairman and President
United Vintners, Inc.
James H. Wille
Vice President
President
KFC Corporation
John R. Graham, Jr.
Treasurer

Principal Offices and Plants

Corporate Headquarters
Farmington, Conn. 06032 — Code 203 677-4061
Arrow Liquors Company Headquarters
330 New Park Avenue, Hartford, Conn. 06101 — Code 203 233-7531
Consumer Products Division Headquarters
430 New Park Avenue, Hartford, Conn. 06101 — Code 203 233-7531
Heublein International, Ltd. Headquarters
Farmington, Conn. 06032 — Code 203 677-4061
KFC Corporation Headquarters
1441 Gardiner Lane, Louisville, Ky. 40213 — Code 502 459-8600
Smirnoff Beverage & Import Company Headquarters
330 New Park Avenue, Hartford, Conn. 06101 — Code 203 233-7531
United Vintners, Inc. Headquarters
601 Fourth St., San Francisco, Calif. 94107 — Code 415 421-3213

Annual Shareholders' Meeting

The annual meeting of shareholders of Heublein, Inc. will be held at 10:45 a.m. Thursday, October 24, 1974, in the Grand Ballroom of the Hartford Hilton, corner of Ford and Pearl Streets, Hartford, Conn. Shareholders also are invited to attend a supplementary informational meeting at the same location at 9 a.m. on October 24.

Transfer Agents

The Bank of New York
90 Washington Street, New York, New York 10015
Bank of America, N.T. & S.A.
55 Hawthorne Street, San Francisco, California 94105
Third National Bank in Nashville
Uptown Station, P.O. Box 2844, Nashville, Tennessee 37219

Registrars

Morgan Guaranty Trust Company of New York
30 West Broadway, New York, New York 10015
Wells Fargo Bank, N.A.
475 Sansome Street, San Francisco, California 94111
First American National Bank
326 Union Street, Nashville, Tennessee 37237

Trustee for 4½% Convertible Subordinated Debentures

United States Trust Company of New York
48 Wall Street, New York, New York 10015

Heublein's 1974 Annual Report on Form 10-K as filed with the Securities and Exchange Commission will be available upon request from the Corporate Secretary, Heublein, Inc., Farmington, Connecticut 06032. There will be a charge of \$3.00 per copy, payable to Heublein, Inc., to cover printing and mailing costs.

